

**REPORT OF THE AUDIT OF THE
SIMPSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SIMPSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Simpson County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$2,890,914 from the beginning of the year, resulting in a cash surplus of \$4,680,358 as of June 30, 2003.

Debt Obligations:

Total bonded debt principal as of June 30, 2003, was \$12,307,203. Future collections of \$19,011,983 are needed to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$853,754 as of June 30, 2003. Future principal and interest payments of \$1,277,806 are needed to meet these obligations.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SIMPSON COUNTY OFFICIALS	3
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY BALANCES ARISING FROM CASH TRANSACTIONS.....	6
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES.....	12
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE	14
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE	18
NOTES TO FINANCIAL STATEMENTS	19
SUPPORTING SCHEDULES:	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE	32
SCHEDULE OF OPERATING REVENUE	36
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES	40
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	44
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	

.



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Jim Henderson, Simpson County Judge/Executive
Members of the Simpson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Simpson County, Kentucky, as of June 30, 2003, the statement of cash receipts, cash disbursements, and changes in cash balances - all governmental fund types; the statement of cash receipts, cash disbursements, and changes in cash balances - proprietary fund type; and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Simpson County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Simpson County Tourism Commission. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Simpson County Tourism Commission is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Simpson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity, of Simpson County, Kentucky, as of June 30, 2003, the revenues received and expenditures paid, and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Jim Henderson, Simpson County Judge/Executive
Members of the Simpson County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated August 12, 2004, on our consideration of Simpson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Simpson County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 12, 2004

SIMPSON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

Jim Henderson	County Judge/Executive
Kelly Banton	Magistrate
Larry Randolph	Magistrate
Charles McCutchen, Sr.	Magistrate
Kenneth Utley	Magistrate

Other Elected Officials:

Sid Broderon	County Attorney
Danny Booher	Jailer
Bobby C. Phillips, Jr.	County Clerk
Jan J. Murphree	Circuit Court Clerk
Gene Starks	Sheriff
Pam Womack	Property Valuation Administrator
Thomas Crafton	Coroner

Appointed Personnel:

Judy Hayes	County Treasurer
Julie Freeman	Finance Officer

THIS PAGE LEFT BLANK INTENTIONALLY

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY BALANCES ARISING FROM CASH TRANSACTIONS

SIMPSON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2003

	Governmental Fund Type			
	General	Special Revenue	Capital Projects	Debt Service
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 654,260	\$ 11,684	\$ 12,605	\$
Investments (Note 3)			3,901,033	100,824
Total Assets	\$ 654,260	\$ 11,684	\$ 3,913,638	\$ 100,824
<u>Other Resources</u>				
Amounts to be Provided in Future Years for:				
Capital Lease	\$ 853,753	\$	\$	\$
Bond Payments	257,202			12,050,000
Total Other Resources	\$ 1,110,955	\$ 0	\$ 0	\$ 12,050,000
Total Assets and Other Resources	<u>\$ 1,765,215</u>	<u>\$ 11,684</u>	<u>\$ 3,913,638</u>	<u>\$ 12,150,824</u>

The accompanying notes are an integral part of the financial statements.

SIMPSON COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

Proprietary Fund Type	Totals (Memorandum Only)	Component Unit	Totals (Memorandum Only)
Enterprise	Primary Government	Tourism and Convention Commission	Reporting Entity
\$ 2,412	\$ 680,961 4,001,857	\$ 96,128	\$ 777,089 4,001,857
\$ 2,412	\$ 4,682,818	\$ 96,128	\$ 4,778,946
\$	\$ 853,753 12,307,202	\$	\$ 853,753 12,307,202
\$ 0	\$ 13,160,955	\$ 0	\$ 13,160,955
\$ 2,412	\$ 17,843,773	\$ 96,128	\$ 17,939,901

The accompanying notes are an integral part of the financial statements.

SIMPSON COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

	Governmental Fund Type			
	General	Special Revenue	Capital Projects	Debt Service
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Capital Lease (Note 6)	\$ 853,753	\$	\$	\$
Bonds:				
Series 1987 (Note 5)	257,202			
Series 2000 (Note 4)				4,590,000
Series 2002 (Note 4)				7,460,000
Total Liabilities	<u>\$ 1,110,955</u>	<u>\$</u>	<u>\$</u>	<u>\$ 12,050,000</u>
<u>Equity</u>				
Fund Balances:				
Reserved	\$	\$ 11,684	\$ 3,913,638	\$ 100,824
Unreserved	<u>654,260</u>			
Total Equity	<u>\$ 654,260</u>	<u>\$ 11,684</u>	<u>\$ 3,913,638</u>	<u>\$ 100,824</u>
Total Liabilities and Equity	<u><u>\$ 1,765,215</u></u>	<u><u>\$ 11,684</u></u>	<u><u>\$ 3,913,638</u></u>	<u><u>\$ 12,150,824</u></u>

The accompanying notes are an integral part of the financial statements.

SIMPSON COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

Proprietary Fund Type	Totals (Memorandum Only)	Component Unit	Totals (Memorandum Only)
Enterprise	Primary Government	Tourism and Convention Commission	Reporting Entity
\$	\$ 853,753	\$	\$ 853,753
	257,202		257,202
	4,590,000		4,590,000
	7,460,000		7,460,000
\$	\$ 13,160,955	\$	\$ 13,160,955
\$ 2,412	\$ 4,028,558	\$ 96,128	\$ 4,124,686
	654,260		654,260
\$ 2,412	\$ 4,682,818	\$ 96,128	\$ 4,778,946
\$ 2,412	\$ 17,843,773	\$ 96,128	\$ 17,939,901

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES

SIMPSON COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES

For The Fiscal Year Ended June 30, 2003

	General Fund Type		
	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>			
Schedule of Operating Revenue	\$ 1,954,053	\$ 737,002	\$ 1,069,624
Other Financing Sources:			
Tourism Commission Receipts			
Transfers In	107,889		387,664
Kentucky Advance Revenue Program:			
Principal	1,156,800	80,600	
Bond Issuance			
Accrued Interest			
Total Cash Receipts	<u>\$ 3,218,742</u>	<u>\$ 817,602</u>	<u>\$ 1,457,288</u>
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,010,047	\$ 704,991	\$ 1,246,720
Other Financing Uses:			
Tourism Commission Expenditures			
Construction and Professional Fees			
Transfers Out	387,664	107,889	154,480
Bonds and Bond Anticipation Notes:			
Principal Paid			13,891
Interest Paid			17,219
Principal on Capital Leases	33,106		
Kentucky Advance Revenue Program:			
Principal Paid	1,156,800	80,600	
Total Cash Disbursements	<u>\$ 3,587,617</u>	<u>\$ 893,480</u>	<u>\$ 1,432,310</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (368,875)	\$ (75,878)	\$ 24,978
Cash Balance - July 1, 2002	<u>613,318</u>	<u>348,719</u>	<u>793</u>
Cash Balance - June 30, 2003	<u><u>\$ 244,443</u></u>	<u><u>\$ 272,841</u></u>	<u><u>\$ 25,771</u></u>

The accompanying notes are an integral part of the financial statements.

SIMPSON COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
For The Fiscal Year Ended June 30, 2003
(Continued)

General Fund Type	Special Revenue Fund Type	Capital Projects Fund Type		Debt Service Fund Type	
Local Government Economic Assistance Fund	911 Emergency Dispatch Fund	Jail Construction Fund	Justice Center Corporation Fund	Jail Sinking Fund	Justice Center Corporation Bond Fund
\$ 61,766	\$ 271,345	\$ 321	\$ 65,941	\$	\$ 1,639
			799	364,312	2,625
			5,420,573		1,890,228
					7,778
<u>\$ 61,766</u>	<u>\$ 271,345</u>	<u>\$ 321</u>	<u>\$ 5,487,313</u>	<u>\$ 364,312</u>	<u>\$ 1,902,270</u>
\$ 53,446	\$ 269,053	\$	\$	\$	\$
		75,939	1,986,957		94,033
		209,832	2,625		799
				140,000	1,500,000
			1,667	234,875	207,412
<u>\$ 53,446</u>	<u>\$ 269,053</u>	<u>\$ 285,771</u>	<u>\$ 1,991,249</u>	<u>\$ 374,875</u>	<u>\$ 1,802,244</u>
\$ 8,320	\$ 2,292	\$ (285,450)	\$ 3,496,064	\$ (10,563)	\$ 100,026
102,837	9,392	285,450	417,574	10,563	798
<u>\$ 111,157</u>	<u>\$ 11,684</u>	<u>\$</u>	<u>\$ 3,913,638</u>	<u>\$</u>	<u>\$ 100,824</u>

The accompanying notes are an integral part of the financial statements.

SIMPSON COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

	Totals (Memorandum Only)	Component Unit	Totals (Memorandum Only)
	Primary Government	Tourism and Convention Commission	Reporting Entity
<u>Cash Receipts</u>			
Schedule of Operating Revenue	\$ 4,161,691	\$	\$ 4,161,691
Other Financing Sources:			
Tourism Commission Receipts		102,563	102,563
Transfers In	863,289		863,289
Kentucky Advance Revenue Program:			
Principal	1,237,400		1,237,400
Bond Issuance	7,310,801		7,310,801
Accrued Interest	7,778		7,778
Total Cash Receipts	<u>\$ 13,580,959</u>	<u>\$ 102,563</u>	<u>\$ 13,683,522</u>
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 4,284,257	\$	\$ 4,284,257
Other Financing Uses:			
Tourism Commission Expenditures		85,436	85,436
Construction and Professional Fees	2,156,929		2,156,929
Transfers Out	863,289		863,289
Bonds and Bond Anticipation Notes:			
Principal Paid	1,653,891		1,653,891
Interest Paid	461,173		461,173
Principal on Capital Leases	33,106		33,106
Kentucky Advance Revenue Program:			
Principal Paid	1,237,400		1,237,400
Total Cash Disbursements	<u>\$ 10,690,045</u>	<u>\$ 85,436</u>	<u>\$ 10,775,481</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 2,890,914	\$ 17,127	\$ 2,908,041
Cash Balance - July 1, 2002	<u>1,789,444</u>	<u>79,001</u>	<u>1,868,445</u>
Cash Balance - June 30, 2003	<u>\$ 4,680,358</u>	<u>\$ 96,128</u>	<u>\$ 4,776,486</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

SIMPSON COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	Enterprise Fund Type
	Jail Canteen Fund
<u>Cash Receipts</u>	
Jail Canteen Receipts	\$ 40,210
Total Cash Receipts	\$ 40,210
<u>Cash Disbursements</u>	
Jail Canteen Expenditures	\$ 38,889
Total Cash Disbursements	\$ 38,889
Excess of Cash Receipts Over Cash Disbursements	\$ 1,321
Cash Balance July 1, 2002	1,091
Cash Balance June 30, 2003	\$ 2,412

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

SIMPSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	Enterprise Fund Type
	Jail Canteen Fund
Cash Flows from Operating Activities:	
Operating Income	\$ 1,321
Net Cash Provided by Operating Activities	\$ 1,321
Net Increase in Cash and Cash Equivalents	\$ 1,321
Cash and Cash Equivalents - July 1, 2002	1,091
Cash and Cash Equivalents - June 30, 2003	\$ 2,412

The accompanying notes are an integral part of the financial statements.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Simpson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Simpson County Justice Center Corporation and Simpson County Tourism Commission, as part of the reporting entity.

Simpson County Justice Center Corporation

Fiscal Court has the authority to appoint a voting majority of the Simpson County Justice Center Corporation's (JCC) Board of Directors. Fiscal Court also has the ability to approve or modify the JCC's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the JCC. In addition, Fiscal Court is financially accountable for the JCC: legally entitled to the JCC's resources as well as legally obligated for the JCC's debt. Financial information for the Justice Center Corporation is blended within Simpson County's financial statements.

Simpson County Tourism and Convention Commission

On March 31, 1992, the Simpson County Fiscal Court (Fiscal Court) established the Simpson County Tourism Commission (Commission) pursuant to KRS 91A.350(2) for the purpose of promoting tourism and convention activity in Simpson County. The Commission is composed of seven members appointed by the Simpson County Judge/Executive with the approval of the Fiscal Court. Five members are appointed by the County Judge/Executive from lists submitted by third parties. Two members are appointed at-large by the County Judge/Executive. The Commission's governing body is substantially different from the Fiscal Court. However, the Commission is fiscally dependent on the Fiscal Court because the Fiscal Court controls its major source of revenue. The Commission's major source of revenue is the transient room tax. On March 31, 1992, the Fiscal Court enacted an ordinance imposing a transient room tax.

The Fiscal Court currently collects "3% of the rent for every occupancy of a suite, room or rooms, charged by all persons, companies, corporations or other like or similar persons, groups or organizations doing business as motor courts, motels, hotels, inns, or like or similar accommodations businesses." The Commission is to annually submit a request for funds to the Fiscal Court. This fiscal dependency requires the Fiscal Court to include the Commission as a component unit. The Commission is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Commission should be presented discretely. The Commission did have financial activity during fiscal year 2003. We will discretely present the modified cash financial statements that have been audited and provided by an independent CPA.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Additional - Simpson County Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

Kentucky law provides for election of the above officials from the geographic area constituting Simpson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Simpson County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Simpson County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Simpson County Special Revenue Fund Type includes the following county funds: 911 Emergency Dispatch Fund.

3) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Jail Construction Fund and the Simpson County Justice Center Corporation Fund of the Fiscal Court are reported as Capital Projects Fund Types.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

4) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Jail Sinking Fund and Justice Center Corporation Bond Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

5) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Simpson County Enterprise Fund Type includes the jail canteen account, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Simpson County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget (Continued)

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Public Properties Corporation Sinking Fund (Debt Service Fund Type) because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Governor's Office for Local Development does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. For the purpose of the statement of cash flows, the county considers all investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Simpson County Fiscal Court: Simpson County Water District and Franklin Simpson County Ambulance Taxing District, but the fiscal court's accountability for these organizations does not extend beyond making the appointments.

G. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Simpson County Fiscal Court:

SIMPSON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Joint Ventures (Continued)

Franklin-Simpson Parks Board, Inc.

The Simpson County Fiscal Court has retained an ongoing financial responsibility for the Franklin-Simpson Parks Board, Inc. The Fiscal Court provides \$125,000 of funding to the Parks Board each fiscal year. The Simpson County Fiscal Court should request the Franklin-Simpson Parks Board, Inc. obtain an independent audit each year.

Simpson County 911 Advisory Board

The Simpson County Fiscal Court and City of Franklin entered into an interlocal agreement to provide enhanced 911 services to the citizens of Simpson County. The agreement states, "If the parties terminate this agreement and the operation as contemplated herein, all assets and property of every kind and nature purchased or acquired with the above-mentioned Service Charges shall be sold, by public sale if the parties can agree and by public auction if they cannot, and the balance of the proceeds shall be divided 50% to the county and 50% to city after the county has been reimbursed for all funds advanced under this agreement."

H. Jointly Governed Organization

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based on these criteria, the following are considered jointly governed organizations of the Simpson County Fiscal Court: Franklin Simpson Industrial Development Authority, Franklin Simpson Planning and Zoning Commission, and Franklin Simpson Planning and Zoning Adjustment Board.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 3. Deposits and Investments

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

B. Investments

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

Types of Investments	Category			Carrying Amount	Market Value
	1	2	3		
U.S. Government Agency Obligations	\$ 4,001,857	\$	\$	\$ 4,001,857	\$ 4,001,857
Totals	\$ 4,001,857	\$	\$	\$ 4,001,857	\$ 4,001,857

Note 4. Long-Term Debt

A. General Obligation Bonds, Series 2000 - Jail Sinking Fund

Simpson County Fiscal Court issued general obligation bonds, series 2000, dated September 1, 2000, for the purpose of the detention facility renovation and addition. On September 15, 2000, \$4,730,000 of general obligation bonds were issued at various interest rates. Since these general obligation bonds were issued at a discount of \$45,685, net bond proceeds were \$4,684,315. As of June 30, 2003, the principal balance was \$4,590,000. Debt service requirements are:

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Long-Term Debt (Continued)

A. General Obligation Bonds, Series 2000 - Jail Sinking Fund (Continued)

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2004	\$ 227,988	\$ 150,000
2005	220,550	155,000
2006	212,550	165,000
2007	204,175	170,000
2008	195,425	180,000
2009-2013	828,375	1,050,000
2014-2018	530,875	1,350,000
2019-2022	147,040	1,370,000
Totals	<u>\$ 2,566,978</u>	<u>\$ 4,590,000</u>

B. Mortgage Revenue Bonds, Series 2002 – Simpson County Justice Center Corporation

Simpson County Justice Center Corporation, an agency and instrumentality of the Simpson County Fiscal Court created on March 20, 2001, issued Simpson County Justice Center Corporation First Mortgage Revenue Bonds (bonds), Series 2002, on July 1, 2002, for the purpose of acquisition, construction, installation, and equipping of the Simpson County Judicial Center. On July 10, 2002, \$7,460,000 of bonds was issued at various interest rates with accrued interest of \$7,778. Since these bonds were issued at a discount of \$149,199, net bond proceeds were \$7,318,579. The Corporation has entered into an agreement to lease the Simpson County Judicial Center to the Simpson County Fiscal Court for the amount of the bond payments. The Simpson County Fiscal Court has a sublease with Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the Simpson County Judicial Center. \$307,398 of the funds from the bond issuance was deposited to a sinking fund to meet debt service requirements. Future debt service requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2004	\$ 311,118	\$ 245,000
2005	305,972	255,000
2006	299,470	260,000
2007	292,190	270,000
2008	283,752	280,000
2009-2013	1,255,901	1,600,000
2014-2018	894,286	2,005,000
2019-2023	381,955	2,545,000
Totals	<u>\$ 4,024,644</u>	<u>\$ 7,460,000</u>

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Long-Term Participation Agreement

Revenue Bonds, Series 1987

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$991,772 of revenue bonds at various interest rates, of which the county has agreed to pay \$401,741 principal and a proportional share of interest on the issue. Revenue bonds outstanding as of June 30, 2003 totaled \$257,202. Debt service requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 16,286	\$ 14,795
2005	15,292	15,757
2006	14,233	16,783
2007	13,104	17,876
2008	11,902	19,040
2009-2013	38,533	115,511
2014-2015	3,809	57,440
Totals	<u>\$ 113,159</u>	<u>\$ 257,202</u>

Note 6. Capital Lease Agreements

The county has entered into the following capital lease agreements:

A. Voting Machine Lease - General Fund

On November 20, 1994, the Simpson County Fiscal Court entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease-purchase agreement was for the purchase of voting machines. The principal was \$66,000 at 6.914 percent interest for a period of 10 years, interest paid monthly and principal paid annually. Principal outstanding as of June 30, 2003, was \$9,000. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 363	\$ 9,000
Totals	<u>\$ 363</u>	<u>\$ 9,000</u>

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Capital Lease Agreements (Continued)

B. Fire Truck Lease - General Fund - General Fund Type

On February 25, 2000, the Simpson County Fiscal Court entered into a lease-purchase agreement with Emergency One, Inc. The lease-purchase agreement was for the purchase of a fire truck. The principal was \$150,985 at 6.09 percent interest for a period of 10 years, interest and principal paid annually. Principal outstanding as of June 30, 2003, was \$114,639. Lease payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 6,982	\$ 13,620
2005	6,152	14,450
2006	5,272	15,330
2007	4,338	16,263
2008	3,348	17,253
2009-2010	3,480	37,723
Totals	<u>\$ 29,572</u>	<u>\$ 114,639</u>

C. Fire Substations Lease - General Fund - General Fund Type

On November 2, 2001, the Simpson County Fiscal Court entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The lease-purchase agreement was for the construction of fire substations. The principal was \$250,000 at 3.25 percent interest for a period of 15 years, interest paid monthly and principal paid annually. Principal outstanding as of June 30, 2003, was \$230,115. Lease payment requirements excluding an anticipated interest rebate from KACoLT are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 9,508	\$ 14,977
2005	8,202	14,300
2006	7,631	14,772
2007	7,042	15,259
2008	6,433	15,762
2009-2013	22,304	86,963
2014-2017	4,769	68,082
Totals	<u>\$ 65,889</u>	<u>\$ 230,115</u>

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Capital Lease Agreements (Continued)

D. Detention Facility Renovation And Addition Lease - Jail Fund - General Fund Type

On April 18, 2002, the Simpson County Fiscal Court entered into a lease-purchase agreement with the Kentucky Area Development Districts Financing Trust. The lease-purchase agreement was for the purpose of additional financing of the detention facility renovation and addition. The principal was \$500,000 at variable interest rates for a period of 21 years, interest paid semi-annually and principal paid annually. Principal outstanding as of June 30, 2003, was \$500,000. Lease payment requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2004	\$ 25,903	\$ 15,000
2005	25,363	15,000
2006	24,785	15,000
2007	24,130	20,000
2008	23,260	20,000
2009-2013	102,277	105,000
2014-2018	72,078	135,000
2019-2023	30,432	175,000
Totals	<u>\$ 328,228</u>	<u>\$ 500,000</u>

Note 7. Insurance

For the fiscal year ended June 30, 2003, Simpson County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

THIS PAGE LEFT BLANK INTENTIONALLY

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

SIMPSON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 2,322,715	\$ 1,954,053	\$ (368,662)
Road and Bridge Fund	694,255	737,002	42,747
Jail Fund	1,092,755	1,069,624	(23,131)
Local Government Economic Assistance Fund	68,850	61,766	(7,084)
<u>Special Revenue Fund Type</u>			
911 Emergency Dispatch Fund	<u>270,447</u>	<u>271,345</u>	<u>898</u>
Totals	<u>\$ 4,449,022</u>	<u>\$ 4,093,790</u>	<u>\$ (355,232)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 4,449,022
Add: Budgeted Prior Year Surplus			388,727
Less: Other Financing Uses			<u>(64,216)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 4,773,533</u>

THIS PAGE LEFT BLANK INTENTIONALLY

SCHEDULE OF OPERATING REVENUE

SIMPSON COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

GOVERNMENTAL FUND TYPE					
Revenue Categories	General Fund Type	Special Revenue Fund Type	Capital Projects Fund Type	Debt Service Fund Type	Totals (Memorandum Only)
Taxes	\$ 1,377,064	\$	\$	\$	\$ 1,377,064
In Lieu Tax Payments	27,793				27,793
Excess Fees	85,397				85,397
Licenses and Permits	25,119				25,119
Intergovernmental Revenues	2,084,150	25,824			2,109,974
Charges for Services	40,588	164,797			205,385
Miscellaneous Revenues	165,963	80,665			246,628
Interest Earned	16,371	59	66,262	1,639	84,331
Total Operating Revenue	<u>\$ 3,822,445</u>	<u>\$ 271,345</u>	<u>\$ 66,262</u>	<u>\$ 1,639</u>	<u>\$ 4,161,691</u>

THIS PAGE LEFT BLANK INTENTIONALLY

COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

SIMPSON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

<u>GENERAL FUND TYPE</u>			
<u>Expenditure Categories</u>	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
General Government	\$ 572,711	\$ 565,788	\$ 6,923
Protection to Persons and Property	1,256,877	1,222,560	34,317
General Health and Sanitation	214,831	214,568	263
Social Services	4,960	3,020	1,940
Recreation and Culture	665,620	492,457	173,163
Roads	685,999	673,228	12,771
Debt Service	77,083	46,316	30,767
Capital Projects	383,204	171,112	212,092
Administration	641,801	626,155	15,646
 Total Operating Budget - All General Fund Type	 \$ 4,503,086	 \$ 4,015,204	 \$ 487,882
 Other Financing Uses:			
Principal on Jail Bonds	13,891	13,891	
Interest on Jail Bonds	17,219	17,219	
Capital Lease Agreement- Principal on Leases	33,106	33,106	
 TOTAL BUDGET - ALL GENERAL FUND TYPE	 \$ 4,567,302	 \$ 4,079,420	 \$ 487,882
<u>SPECIAL REVENUE FUND TYPE</u>			
<u>Expenditure Categories</u>	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
Protection to Persons and Property	\$ 243,545	\$ 242,775	\$ 770
Administration	26,902	26,278	624
 TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	 \$ 270,447	 \$ 269,053	 \$ 1,394

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable Jim Henderson, Simpson County Judge/Executive
Members of the Simpson County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Simpson County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated August 12, 2004. We did not audit the financial statements of the Simpson County Tourism Commission. Another auditor whose report has been furnished to us audited those financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Simpson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Simpson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 12, 2004

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

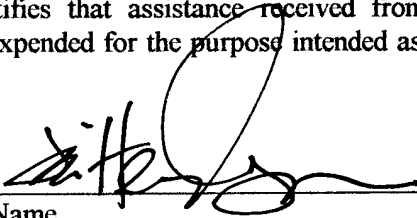
SIMPSON COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
SIMPSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Simpson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

